

**Verizon New England Inc.
d/b/a Verizon Massachusetts**

Commonwealth of Massachusetts

D.T.E. Docket No. 06-61

Respondent: Joseph S. Williams
Title: Specialist Financial Planning &
Analysis – Service Costs

REQUEST: CLEC Coalition, Set #1

DATED: August 15, 2006

ITEM: CLEC 1-1 Please provide the avoided cost study and all supporting schedules and analyses prepared or modified by Verizon's corporate predecessor, New England Telephone and Telegraph Company d/b/a NYNEX to reflect the Department of Telecommunications and Energy's ordered discount rates in D.P.U. 96-73/74, 96-75, 96-80/81, 96-93, 96-94 – Phase II. If NYNEX did not prepare a modified avoided cost study to reflect resale discount rates ordered by the Department, please provide the original avoided cost study and all supporting analyses prepared by NYNEX in D.P.U. 96-73/74, 96-75, 96-80/81, 96-93, 96-94 – Phase II. The requested documents should be provided as electronic files in their native Microsoft Excel form.

REPLY: A copy of the Avoided Cost Study in the D.P.U. 96-73/74, 96-75, 96-80/81, 96-93, 96-94 - Phase 2 compliance filing is attached. An electronic file in Microsoft Excel format is not available.

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ITEM: CLEC 1-2 Please provide a schedule of all currently effective resale or avoided cost discount rates for each Verizon operating company (both former Bell Atlantic and GTE companies) and the effective date for each discount rate. If the discount rate(s) include different discounts rates for residential or business customers, and different associated discount rates for with or without Verizon's Operator Services and Directory Assistance or other classifications, please describe and reflect those discount rates on the schedule. Please provide the date of the final state commission order and case identification number that established such resale discount rate(s). If a recommended, initial, or other non-final decision is currently pending that may supersede an existing resale discount rate, please include that information as well.

REPLY: Verizon objects to this Information Request to the extent it requests information outside of Massachusetts on the grounds that such information is not relevant to this proceeding, is burdensome and is beyond the jurisdiction of the Department. Verizon also objects to this Information Request to the extent it requests information from Verizon entities other than Verizon New England Inc. (d/b/a Verizon Massachusetts) on the grounds that such entities are not parties to this proceeding. Without waiving its objections and in an effort to be responsive Verizon has compiled the requested information where it is readily available. Please see the attachment to this reply for the current resale discounts and case identification.

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ITEM: CLEC 1-3 Referring to pages 5-6 of Mr. Williams' direct testimony, please explain why Verizon has not filed for revised resale or avoided cost discounts in each of its operating territories based upon the Eight Circuit's decision on the FCC's avoided cost rules.

REPLY: Verizon objects to this Information Request to the extent it requests information outside of Massachusetts on the grounds that such information is not relevant to this proceeding, is beyond the jurisdiction of the Department, and not likely to lead to the discovery of admissible evidence. Verizon also objects to this Information Request to the extent it requests information from Verizon entities other than Verizon New England Inc. (d/b/a Verizon Massachusetts) on the grounds that such entities are not parties to this proceeding. Without waiving its objections and in an effort to be responsive, Verizon states there are significant internal costs and resource requirements involved with developing and filing revised resale or avoided cost discounts. As stated in the direct testimony, pages 5-6, Verizon has filed costs studies in four states seeking reexamination of erroneous interpretations of the avoided cost rules and will continue to do so based on its business needs and requirements.

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ITEM: CLEC 1-4 Page 9, lines 22-23 of Mr. Williams' direct testimony state that Market Management functional expenses in Account 6611 are 100 percent avoided. Yet, page 6 of Exhibit 1 indicates that only 21.03% of the intrastate regulated amount recorded in Account 6611 is considered avoided. Please explain why some of the headcount, if not all of the headcount, in the following departments would not be considered avoided if Verizon lost market share to competitors due to resale of Verizon's services:

- a. Advertising & Promotions;
- b. Database Marketing;
- c. Marketing;
- d. Marketing Communications & Branding;
- e. Pricing;
- f. Product Management/Product Development; and
- g. Retail Direct and Indirect (Agent) Verizon Sales.

REPLY: USOA Account 6611 is used to record expenses associated with both managing products and managing markets. Although the entire Market Management function is considered avoided when wholesale carriers resell retail services, none of the expenses associated with Product Management are avoided. That is mainly because a product manager must plan, develop, price, tariff and manage the retail products

REPLY: CLEC 1-4
(cont'd.)

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that resellers want to resell.

See also Exhibit 2, Part 2b, pages 4-5 of Mr. Williams' direct testimony filed on June 16, 2006.

VZ #4

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ITEM: CLEC 1-5 Please provide an electronic copy of the special study and all supporting schedules referred to in Exhibit 1, page 10, lines 91 and 93. This study should be provided in the native Microsoft Excel format with all formula links intact.

REPLY: The information is contained in Attachment I and Attachment II to the reply.

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ITEM: CLEC 1-6 Referring to page 11, lines 1-9 of Mr. Williams' direct testimony, please provide a schedule of Verizon-Massachusetts's retail and wholesale uncollectible expense for the year 2005 and the account and sub-account number where each amount is recorded.

REPLY: Please see the attachment to this reply.

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ITEM: CLEC 1-7 Referring to page 11, lines 11-23 of Mr. Williams' direct testimony, please confirm or deny whether Verizon-Massachusetts or Verizon Communications, Inc. has ever reduced, or decided not to expand, headcount or any other non-payroll costs in the following operating expense categories due to business lost to competitors purchasing Verizon's services via resale:

- a. 61XX General Support Expenses;
- b. 62XX – 65XX Network Operations Expense (except for the Customer Repair Service Bureau portion of 6533);
- c. 661300 – Product Advertising;
- d. 67XX – General and Administrative Expenses.

REPLY: Verizon has not reduced or decided not to expand headcount or any non-payroll costs in these accounts due to business lost to resale.

The decision to expand or not expand headcount or non-payroll costs is determined by executive management based on the needs of the business and the obligation to maximize shareholder value. Loss of business to resale or other types of competition may result in increases in certain expenses in an effort to replace lost revenue (e.g., deploying new or other technology alternatives).

The expenses listed (61XX, 62XX-65XX, 6613, 67XX) are not avoided when a Verizon retail customer shifts to resale. These expenses are not variable with respect to that shift because Verizon is

REPLY: CLEC 1-7
(cont'd.)

still maintaining the service, albeit as resold retail services, instead of as Verizon retail services.

- Support expenses (61XX) such as Motor Vehicles, Land & Building, Furniture & Fixtures, Office Equipment and Computer Maintenance are not variable due to a shift from a customer moving from Retail to Resale.
- Network Operations expenses (62XX-65XX), other than the customer-facing portion of Trouble Reporting, must be incurred whether the customer is a Verizon Retail customer or a Resale Customer. Verizon must still maintain its network.
- Account 6613 includes costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services. This excludes non-product related advertising such as corporate image, stock and bond issue and employment advertisements, which shall be included in the appropriate functional accounts (from 47 C.F.R. § 32.6613). According to the Eighth Circuit opinion, “The statute (47 U.S.C. Section 252(d) (3)) recognizes that the ILEC will itself remain a retailer of telephone service with its own continuing costs of providing that retail telephone service”. One of the costs of providing retail telephone service is Product Advertising.
- USOA 67XX, General and Administrative, are common costs to Verizon – the costs associated with “being in business”. As stated by Steve G. Parsons, Ph.D. of Economics, “Common Costs are those only affected by the existence of (avoided by elimination of) the firm in total”. Parsons Applied Economics, L.L.C. “Common Vocabulary – Cost Principles for Decisions”

The following data extracted from ARMIS illustrates that while Verizon has lost Access Lines in Massachusetts, the costs identified above have remained relatively constant:

Expense	Y2001	Y2002	Y2003	Y2004	Y2005
61XX	132,294	139,794	164,689	153,579	149,146
62XX-65XX	1,474,294	1,504,755	1,651,028	1,614,755	1,667,406
6613	11,303	14,850	13,637	13,401	10,794
67XX	358,291	413,227	589,489	440,832	351,980
Switched Access Lines	4,373,612	4,136,304	3,924,948	3,722,023	3,446,369

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ITEM: CLEC 1-8 Referring to page 11, lines 11-23 of Mr. Williams' direct testimony, please confirm or deny whether Verizon-Massachusetts or Verizon Communications, Inc. plans its headcount and other non-payroll costs in the following operating expense categories completely without any regard of business that may be lost to competitors purchasing Verizon's services via resale:

- a. 61XX General Support Expenses;
- b. 62XX – 65XX Network Operations Expense (except for the Customer Repair Service Bureau portion of 6533);
- c. 661300 – Product Advertising;
- d. 67XX – General and Administrative Expenses.

REPLY: Verizon does not plan its headcount or any non-payroll costs in these accounts due to business that may be lost to competitors purchasing Verizon's services via resale since the support provided from these functions are still required.

Please see Verizon's reply to CLEC 1-7.

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ITEM: CLEC 1-9 Referring to page 11, lines 11-23 of Mr. Williams' direct testimony, please confirm or deny whether Verizon-Massachusetts or Verizon Communications, Inc. plans its headcount and other non-payroll costs in the following operating expense categories completely without any regard of business that may be lost to competition:

- a. 61XX General Support Expenses;
- b. 62XX – 65XX Network Operations Expense (except for the Customer Repair Service Bureau portion of 6533);
- c. 661300 – Product Advertising;
- d. 67XX – General and Administrative Expenses.

REPLY: Verizon has not reduced or decided not to expand headcount or any other non-payroll costs in these accounts due to business that may be lost to competition.

Please see Verizon's reply to CLEC 1-7.

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ITEM: CLEC 1-10 Please provide a copy of the 2005 GAAP General Ledger by account and sub-account for both revenues and expenses. Each account and sub-account should contain a detailed description of the activity recorded within the account sufficient for an outside user to ascertain a working knowledge of the activity. This description may take the form of an accounting manual designed to serve as a guide for Verizon's internal accounting personnel to follow to ensure Verizon's financial activity is recorded accurately.

REPLY: Verizon objects to this Request to the extent it seeks publicly available data that is as available to the party seeking information as it is to the Respondent. Subject to the foregoing, and in an attempt to be responsive, Verizon states that its GAAP General Ledger uses the USOA Chart of Accounts. The USOA Chart of Accounts can be obtained from the FCC website and is provided in Attachment I to this reply. The FCC's definitions provide the guidelines to ensure Verizon's financial activity by function is recorded accurately.

Any sub-account detail (below the FCC's 4-digit accounting requirements) is for Verizon managerial purposes only, and dictated by what the managerial force wants to monitor in each of the main functional accounts. Additional documentation (or manuals per se) other than the Account Title provided on the following report, is not available.

Note that the avoided cost study (Exhibit 1 of Mr. Williams' testimony) relies only on sub-account analysis to determine the avoided portion of USOA Account 6533, Testing and the avoided portion of the Customer Services in USOA Account 6623.

REPLY: CLEC 1-10
(cont'd.)

A listing of Verizon MA's General Ledger by sub-account for revenues and expenses is provided in Attachment II to this reply.

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ITEM: CLEC 1-11 Referring to Exhibit 1, page 7 of Mr. William's direct testimony, please provide a detailed description of all business activities performed by each Verizon Line of Business that comprises expenses recorded in Account 6612.

REPLY: According to 47 C.F.R. § 32.6612, Sales Expense includes costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records.

Note: The *Annual ARMIS Order*, December 17, 2003 (CC Docket No. 86-182) removed row 6612 from reporting requirements and renamed 6611 from “Product management” to “Product management and sales expense.” However, Verizon continues to use USOA accounts 6611 and 6612 to separate Product Management from Sales expenses, as evident in the GAAP report provided in the reply to CLEC 1-10.

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ITEM: CLEC 1-17 In Exhibit 1, WP4 and WP7, please explain why EOY 2004 expenses were used rather than the 2005 expenses used in the rest of the workbook. Please provide the source Documents used for both workpapers.

REPLY: In Exhibit 1, WP4 and WP7, the columns labeled with “EOY 2004” should read “EOY 2005”.

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ITEM: CLEC 1-18 Referring to Exhibit 1, WP7, please provide a detailed explanation of the activity recorded in each sub-account and explain how Verizon determined whether the costs associated with such activity was retail, wholesale or unspecified.

REPLY: As indicated in Exhibit 2 of Mr. Williams' June 16, 2006 testimony, in order to determine the amount of Avoided Customer Services expense, Verizon examines the managerial sub-account detail for account 6623 obtained from the managerial accounting system. Verizon's financial accounting systems provide a short description of these sub-accounts that flow to the USOA 6623. Verizon assigns the expenses associated with each sub-account into Retail, Wholesale, and Unspecified Categories. Retail-classified costs include those associated with End-users, Business/Residence Customers and Public PayPhone Customers, since these are Verizon's retail markets. Wholesale-classified costs include those associated with Interexchange Carriers, CLEC and reseller customers. Unspecified would be anything that involves administrative services for retail and/or wholesale services, or for Billing Operations that will be determined in the secondary analysis for USOA 6623.

As stated in reply to CLEC 1-10, detailed descriptions (or manuals) of these sub-accounts are not available. Verizon bases its retail/wholesale classification on the account title provided by the manager entering this functional data into the system. When the account title does not provide a clear indication of whether the expense should be avoided, Verizon takes a conservative approach and classifies it as retail and thus avoided.

REPLY: CLEC 1-18
(cont'd.)

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Some of the more significant sub-accounts that are not avoided include:

Cs Sr Ex-Ac Mn & Cs BI-CABS-C (\$6,736,753

- CABS is a Verizon acronym which stands for Carrier Access/Account Billing System which is used to bill Interexchange Carriers, CLECs and resellers for services provided.

Cs Sr Ex-Ac Mn&C BI-ICSC Inq-C (\$1,599,959)

Cs Sr Ex-SG&A-ICSC-C (\$25,746,736)

Cust Serv Ex-Serv Order ICSC-C (\$268,861,995)

IXC PAYMENT AND COLLECTION EXPENSES (\$2,344,362)

IXC SERVICES-BILLING INQUIRY\TREATMENT (\$1,818,974)

IXC SERVICES-ORDER PROCESSING (\$19,699,771)

- "IXC" and "ICSC" refer to Interexchange Carriers and interexchange carrier service centers (which now handle all wholesalers, even though the managers have changed the function title)

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ITEM: CLEC 1-19 In Exhibit 1, WP4, please discuss and explain what constitutes: "Trouble Report Receipt & Processing sub-accounts associated with End-User Testing (Avoided)." What criteria were used to determine that trouble reports were associated with end-user testing?

REPLY: USOA Account 6533 includes "costs incurred in testing telecommunications facilities from a testing facility (test desk or other testing system) to determine the condition of plant on either a routine basis or prior to assignment of the facilities; receiving, recording and analyzing trouble reports; testing to determine the nature and location of reported trouble condition; and dispatching repair persons or otherwise initiating corrective action." 47 CFR § 32.6533

See Exhibit 2, Part 2a to the June 16, 2006 testimony of Mr. Williams.

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ITEM: CLEC 1-20 In Exhibit 1, WP4, please discuss and explain how Verizon determined that no testing for "Ex-Interoffice testing-R" (Line 19) was related to retail services? Please answer the same question for all other categories for which testing expenses were 100% assigned to wholesale and none to retail services.

REPLY: No actual "network" testing expenses are avoided in Verizon when a retail line is sold to a reseller. The retail line and the resold retail line incur the same levels of network testing. However, the customer facing activities associated with receiving, recording and analyzing customer trouble reports are avoided 100%. The Trouble Report functions are booked to the USOA called Testing; this may explain, the confusion. In other words, testing is not avoided, but trouble report processing is avoided and trouble report processing is only a subset of USOA 6533.

Also please see the reply to CLEC 1-19 for the detailed description of USOA 6533.

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ITEM: CLEC 1-21 For all data and calculations on Exhibits 1, WP5-WP6, please identify separately what portion is related to residential services versus business services.

REPLY: Product Management activities (WP5) are not segregated between residence and business; the product manager is assigned a product. For example, a Product Manager manages Call Waiting Features, whether they are sold to residence or business customers on a retail or a resold wholesale basis.

Sales activities (WP6) also are not segregated between residence and business customers although most Sales activities in this USOA 6612 are likely for business customers since residence customers typically do not require Verizon to design and prepare proposals for complex service arrangements or customer requests for information/proposal inquiries.

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ITEM: CLEC 1-22 Please provide all work papers, analyses, studies, and other Documents used to support the calculations and data contained in Exhibit 1, WP 4-7.

REPLY: All workpapers, analyses and studies are contained within Exhibit 1 except for Billing and Collection special studies and a headcount list used to support calculations in WP5 of the avoided cost study. The headcount list is attached to this reply. Names have been changed to ensure confidentiality and privacy of employees. See also the reply to CLEC 1-5.

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ITEM: CLEC 1-23 Please provide the basis for the statement in Mr. Williams' testimony that only intrastate services are subject to resale. *See, e.g.*, page 13, line 2.

REPLY: Page 13, line 2 of Mr. Williams' June 16, 2006 testimony does not say that only Intrastate services are subject to resale. Rather the testimony explains that Interstate revenues have been removed from the denominator of the discount calculation since the resale discount only applies to Intrastate services.

Interstate tariffs are filed with the FCC; they are not governed by the Commonwealth of Massachusetts.